Financial Statements of

# CANADA WEST FOUNDATION

Years ended December 31, 2012 and 2011

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# INDEPENDENT AUDITORS' REPORT

To Members of Canada West Foundation

We have audited the accompanying financial statements of Canada West Foundation, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada West Foundation as at December 31, 2012, December 31, 2011, and January 1, 2011 and its results of operations and its cash flows for the years ended December 21, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

Chartered Accountants

October 24, 2013
Calgary, Canada

# CANADA WEST FOUNDATION

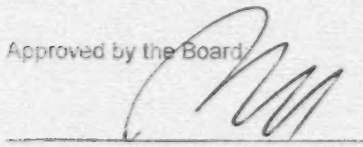
Statements of Financial Position

December 31, 2012, December 31, 2011 and January 1, 2011

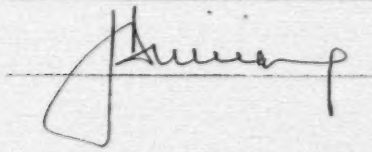
| | December 31, 2012 | December 31, 2011 | January 1, 2011 (note 11) |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 186,036 | $ 790,427 | $ 1,044,356 |
| Accounts receivable (note 2) | 183,380 | 171,965 | 122,325 |
| Inventory | 27,648 | 10,321 | – |
| | 397,064 | 972,713 | 1,166,681 |
| Investments (note 3) | 7,545,725 | 7,866,403 | 8,139,500 |
| Furniture and equipment (note 4) | 32,852 | 45,143 | 32,491 |
| | $ 7,975,641 | $ 8,884,259 | $ 9,338,672 |
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Operating loan (note 5) | $ – | $ 115,000 | $ – |
| Accounts payable and accrued liabilities | 100,250 | 159,628 | 162,537 |
| Deferred contributions (note 6) | 229,038 | 1,103,238 | 1,190,738 |
| | 329,288 | 1,377,866 | 1,353,275 |
| Net assets (note 7): | | | |
| Restricted for endowment purposes | 6,111,134 | 6,111,134 | 6,111,134 |
| Internally restricted | 1,083,473 | 1,392,233 | 1,663,572 |
| Unrestricted | 451,746 | 3,026 | 210,691 |
| | 7,646,353 | 7,506,393 | 7,985,397 |
| Commitments (note 9) | | | |
| | $ 7,975,641 | $ 8,884,259 | $ 9,338,672 |

See accompanying notes to financial statements.

Approved by the Board



Director



Director

# CANADA WEST FOUNDATION

Statements of Operations

Years ended December 31, 2012 and 2011

| | 2012 | 2011 (note 11) |
|---|---|---|
| Revenues: | | |
| Special projects and donations | $ 1,661,847 | $ 1,900,674 |
| Investment and other income | 230,124 | 295,503 |
| Members and subscribers | 175,541 | 180,250 |
| Realized gain on sale of investments | 128,854 | 322,645 |
| Publication sales | 5,584 | 8,067 |
| | 2,201,950 | 2,707,139 |
| Expenses: | | |
| Research programs and special projects (note 10) | 1,987,259 | 2,272,846 |
| General and administrative (note 10) | 392,881 | 452,808 |
| Depreciation | 12,706 | 13,815 |
| Deficiency of revenues over expenses before unrealized capital gains | (190,896) | (32,330) |
| Change in unrealized capital gain on investments | 330,856 | (446,674) |
| Excess (deficiency) of revenues over expenses | $ 139,960 | $ (479,004) |

See accompanying notes to financial statements.

# CANADA WEST FOUNDATION

Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

| | Restricted for endowment purposes | Internally restricted | Unrestricted | Total |
|---|---|---|---|---|
| Balance, January 1, 2011 | $ 6,111,134 | $ 1,663,572 | $ 210,691 | $ 7,985,397 |
| Deficiency of revenues over expenses | – | – | (479,004) | (479,004) |
| Internally imposed restriction | – | (271,339) | 271,339 | – |
| Balance, December 31, 2011 | 6,111,134 | 1,392,233 | 3,026 | 7,506,393 |
| Excess of revenues over expenses | – | – | 139,960 | 139,960 |
| Internally imposed restriction | – | (308,760) | 308,760 | – |
| Balance, December 31, 2012 | $ 6,111,134 | $ 1,083,473 | $ 451,746 | $ 7,646,353 |

See accompanying notes to financial statements.

# CANADA WEST FOUNDATION

Statements of Cash Flows

Years ended December 31, 2012 and 2011

| | 2012 | 2011 (note 11) |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenues over expenses | $ 139,960 | $ (479,004) |
| Items not involving cash: | | |
| Deferred contributions recognized as revenue | (1,163,138) | (1,536,933) |
| Depreciation | 12,706 | 13,815 |
| Gain on sale of investments | (128,854) | (322,645) |
| Change in unrealized (gain) loss on investments | (330,856) | 446,674 |
| | (1,470,182) | (1,878,093) |
| Changes in non-cash operating working capital accounts: | | |
| Accounts receivable | (11,415) | (49,640) |
| Inventory | (17,327) | (10,321) |
| Accounts payable and accrued liabilities | (59,378) | (2,909) |
| | (1,558,302) | (1,940,963) |
| Investment: | | |
| Deferred contributions received | 288,938 | 1,449,433 |
| Financing: | | |
| (Decrease) increase in operating loan | (115,000) | 115,000 |
| Purchase of investments | (2,196,700) | (3,360,156) |
| Proceeds on sale of investments | 2,977,088 | 3,509,224 |
| Purchase of furniture and equipment | (415) | (26,467) |
| | 664,973 | 237,601 |
| Decrease in cash and cash equivalents | (604,391) | (253,929) |
| Cash and cash equivalents, beginning of year | 790,427 | 1,044,356 |
| Cash and cash equivalents, end of year | $ 186,036 | $ 790,427 |

See accompanying notes to financial statements.

# CANADA WEST FOUNDATION



Years ended December 31, 2012 and 2011

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The Canada West Foundation (the "Foundation") was formed to engage in research and education in the area of economic, social and public policy.

The Foundation is a not-for-profit organization under Section 149(1) of the Income Tax Act and accordingly is not taxable on the revenues it receives and earns from operations.

On January 1, 2012, the Foundation has adopted Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with not-for-profit standards.

In accordance with the transitional provisions in not-for-profit standards, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying not-for-profit standards.

A summary of transitional adjustments recorded to net assets and excess (deficiency) of revenues over expenditures is provided in note 11.

**1. Significant accounting policies:**

(a) Cash and cash equivalents:

The Foundation considers all highly liquid investments that are readily convertible to cash or with an original maturity of three months or less to be cash and cash equivalents. These consist of cash and term deposits.

(b) Furniture and equipment:

Computer equipment, phone system and furniture are recorded at cost and depreciation is provided on a declining balance basis at an annual rate of 30%. Leasehold Improvements are recorded at cost and depreciation is provided on a straight-line basis over the term of the lease.

(c) Inventory:

Inventory consists of various publications and other items for resale. Inventory is valued at the lower of cost or net realizable value.

(d) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Deferred contributions are revenues received in the current year that are used for projects in the upcoming years.

Unrestricted corporate donations and membership revenues are recognized when payments are made or committed. Restricted donations related to special project revenue is recognized based on percentage completion method as work is performed. Donations received in kind are recorded at fair market value, determined at the date the donation is made. Endowment contributions are recognized as a direct increase in net assets.

**1. Significant accounting policies (continued):**

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Allocation of expenses:

The Foundation allocates certain of its rent, meals, travel and entertainment, and office and general expenses by identifying the appropriate basis of allocating each expense. Salaries and benefits are allocated based on the time each employee spends on a function.

(g) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

## 2. Accounts receivable:

| | December 31, 2012 | December 31, 2011 | January 1, 2011 |
|---|---|---|---|
| Trade receivables | $ 23,046 | $ 103,720 | $ 33,317 |
| Accrued investment income | 116,174 | 33,257 | 62,047 |
| GST receivable | 24,867 | 28,044 | 20,931 |
| Other | 19,293 | 6,944 | 6,030 |
| | $ 183,380 | $ 171,965 | $ 122,325 |

## 3. Investments:

| December 31, 2012 | Cost | Market value |
|---|---|---|
| Common stocks | $ 4,118,433 | $ 4,713,098 |
| Government and corporate bonds | 2,602,534 | 2,771,412 |
| Cash | 61,215 | 61,215 |
| | $ 6,782,182 | $ 7,545,725 |

| December 31, 2011 | Cost | Market value |
|---|---|---|
| Common stocks | $ 4,485,108 | $ 4,715,740 |
| Government and corporate bonds | 2,885,833 | 3,087,888 |
| Cash | 62,775 | 62,775 |
| | $ 7,433,716 | $ 7,866,403 |

| January 1, 2011 | Cost | Market value |
|---|---|---|
| Common stocks | $ 4,183,652 | $ 4,915,067 |
| Government and corporate bonds | 3,062,725 | 3,210,671 |
| Cash | 13,762 | 13,762 |
| | $ 7,260,139 | $ 8,139,500 |

**4. Furniture and equipment:**

| December 31, 2012 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Computer equipment | $ 190,659 | $ 175,386 | $ 15,273 |
| Phone system | 18,407 | 17,668 | 739 |
| Furniture | 63,679 | 59,366 | 4,313 |
| Leasehold improvements | 20,879 | 8,352 | 12,527 |
| | $ 293,624 | $ 260,772 | $ 32,852 |

| December 31, 2011 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Computer equipment | $ 190,244 | $ 169,075 | $ 21,169 |
| Phone system | 18,407 | 17,319 | 1,088 |
| Furniture | 63,679 | 57,496 | 6,183 |
| Leasehold improvements | 20,879 | 4,176 | 16,703 |
| | $ 293,209 | $ 248,066 | $ 45,143 |

| January 1, 2011 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Computer equipment | $ 185,490 | $ 162,090 | $ 23,400 |
| Phone system | 17,920 | 16,957 | 963 |
| Furniture | 63,332 | 55,204 | 8,128 |
| | $ 266,742 | $ 234,251 | $ 32,491 |

**5. Operating loan:**

The Foundation has access to a $200,000 revolving operating facility, which is due on demand and bears interest at the bank's prime rate plus 2.35%. The facility is secured by a general security agreement and business loan insurance in the amount of $200,000. As at December 31, 2012, the operating loan balance was $nil (December 31, 2011 - $115,000; January 1, 2011 - $ nil).

**6. Deferred contributions:**

| | December 31, 2012 | December 31, 2011 | January 1, 2011 |
|---|---|---|---|
| Balance, beginning of year | $ 1,103,238 | $ 1,190,738 | $ 115,000 |
| Contributions received | 288,938 | 1,449,433 | 2,191,988 |
| Recognized as revenue | (1,163,138) | (1,536,933) | (1,116,250) |
| | $ 229,038 | $ 1,103,238 | $ 1,190,738 |

**7. Net asset balances:**

The distribution of the original endowment capital is not permitted. During the year, the Foundation did not receive any endowment contributions (2011 - $nil).

The Foundation is allowed to use 5% of the total market value of the previous year end's endowment for operating purposes, provided the market value of the endowment is not below the donated capital. In 2012, there was a transfer of $308,760 (2011 – $271,339) from the internally restricted account to the unrestricted account, which included a transfer of an additional $600,000, authorized by the Board of Directors, above the allowed 5% of the total market value of the prior year ends endowment. The restricted market value of the endowment fund was $6,111,134 in 2012 (2011 & 2010 - $6,111,134).

**8. Financial instruments:**

(a) Credit risk:

The Foundation's maximum exposure to credit risk is on cash, term deposits, accounts receivable and the investment in the endowment fund noted above.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Cash consists of cash bank balances; the term deposit represents a short-term investment with a Canadian bank. Credit risk for accounts receivable and the fund investment is the risk that the obligation will fail to be discharged causing the Foundation to incur a financial loss. Credit risk is minimized by ensuring that term deposits are limited to amounts covered by insurance limits, that credit is only extended to those entities that management believes has the financial capacity to pay obligations due to the Foundation, and the fund investment are diversified across different classes of assets and are such investments are managed by professional managers.

Management and the Board of Directors of The Foundation periodically review its investments to ensure that the credit risk assumed is appropriate.

**8. Financial instruments (continued):**

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in raising donations or liquidity investments to meet commitments or protect its assets. Management controls liquidity risk through cash flow projections used to forecast funding requirements for its financial instruments.

(c) Market risk:

Current and future investments in the endowment fund are subject to market risk due to changes in the value of investments in the fund. Fluctuations in general market interest rates have an impact on investments returns in the term deposits and fixed income investments in the endowment fund.

(i) Interest rate risk:

The Foundation is exposed to interest rate risk relating to the income earned on its interest bearing investments as most of these investments have a fixed interest rate for a specified period of time. A 1% reduction in interest rates would reduce the interest income earned by $78,664.

(ii) Foreign currency risk:

The Foundation is exposed to foreign currency fluctuations on investments denominated in US dollars.

**9. Commitments:**

The Foundation has entered into certain operating lease commitments for office space and equipment with future payments as follows:

| | |
|---|---|
| 2013 | $ 97,565 |
| 2014 | 89,999 |
| 2015 | 89,312 |
| 2016 | 55,820 |

**10. Allocation of costs by function:**

| December 31, 2012 | General and administrative | Research Programs and Special projects | Total |
|---|---|---|---|
| Salaries and benefits | $ 230,033 | $ 1,362,583 | $ 1,592,616 |
| Rent | 22,806 | 129,235 | 152,041 |
| Meals, travel and entertainment | 24,132 | 136,748 | 160,880 |
| Office and general | 8,007 | 45,374 | 53,381 |

| December 31, 2011 | General and administrative | Research Programs and Special projects | Total |
|---|---|---|---|
| Salaries and benefits | $ 196,827 | $ 1,426,375 | $ 1,623,202 |
| Rent | 23,449 | 132,880 | 156,329 |
| Meals, travel and entertainment | 56,064 | 266,397 | 322,461 |
| Office and general | 14,610 | 111,637 | 126,247 |

**11. Transitional adjustments:**

(a) Net assets:

The following table summarizes the impact of the transition to not-for-profit standards on the Foundation's net assets as of January 1, 2011:

| | |
|---|---|
| Internally restricted net assets: | |
| As previously reported under Canadian generally accepted accounting principles, December 31, 2010 | $ 784,211 |
| Transition to record unrealized gains on investments through statement of operations (i) | 879,361 |
| Restated, January 1, 2011 | $ 1,663,572 |

In accordance with transitional provisions of Canadian accounting standards for not-for-profit organizations, the Foundation has made the following adjustments:

(i) Change in unrealized gain (loss) on investments:

The Foundation under Canadian generally accepted accounting principles had classified investments as available for sale, with any changes in the fair market value being recorded as a component of net assets. Under Canadian accounting standards for not-for-profit organizations investments are recorded at fair market value with changes in the fair market value recorded through the statement of operations, therefore the Foundation has made the required transition adjustment.

**11. Transitional adjustments (continued):**

(b) Deficiency of revenues over expenses:

As a result of the above noted adjustment and the retrospective application of not-for-profit standards, the Foundation recorded the following adjustments to deficiency of revenues over expenses for the year ended December 31, 2011:

| | |
|---|---|
| Deficiency of revenues over expenses: | |
| As previously reported under Canadian generally accepted accounting principles for year ended December 31, 2011 | $ (32,330) |
| Change in unrealized gain (loss) on investments | (446,674) |
| Restated for the year ended December 31, 2011 | $ (479,004) |

(c) As a result of the above noted adjustment and the retrospective application of not-for-profit standards, the Foundation recorded and adjustment of $446,674 to the transfer of funds between unrestricted and internally restricted funds. This resulted in $271,339 being transferred from the internally restricted fund to the unrestricted fund. Previously under Canadian generally accepted accounting principle there was a transfer of $175,335 from the unrestricted fund to the internally restricted fund. These transfers are a result of ensuring the endowment revenue used for operations does not exceed 5% of the total fair market value of the endowment fund.

# CANADA WEST FOUNDATION

Additional Information to Comply with the Disclosure Requirement of the Alberta Charitable Fund-raising Act and Regulation

Schedule

Years ended December 31, 2012

Tax receipted revenues received from corporations, individuals and foundations during 2012 were $258,270 and were disbursed as follows:

| | |
|---|---|
| Communications | $ 29,404 |
| Office Expenses / Overhead | 228,866 |
| Tax receipted revenues received | 258,270 |
| Government and non-tax receipted revenues | 1,579,118 |
| Government and non-tax receipted revenues | $ 1,837,388 |
| Special projects and donations | $ 1,661,847 |
| Members and subscribers | 175,541 |
| | $ 1,837,388 |

Expenses incurred for the purposes of soliciting contributions were $90,368.

Remuneration paid to employees, whose principal duties involved fund-raising, was $219,975.